

Build it and They Will Come vs. the Pipe to Nowhere - Balancing Incentives for Economic Development with the Cost of Extending Natural Gas Infrastructure

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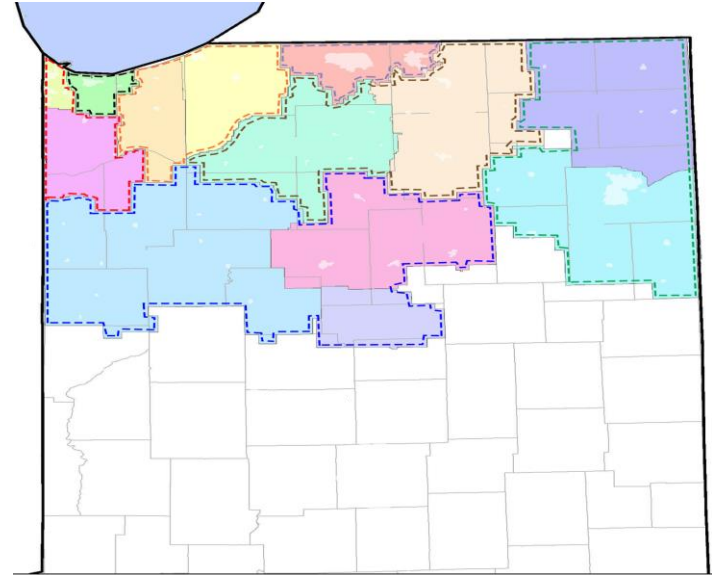
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Northern Indiana Public Service Company (“NIPSCO”) Overview

- **Largest LDC in Indiana***

- Over 832,000 Gas Customers in 32 Counties
- ~375,000,000 Dth Annual Throughput
- Over 18,200 Miles of Pipe
 - ~695 Miles of DOT Transmission
 - ~880,000 Services
 - < 50 Miles Priority Pipe
 - 0 Miles Cast Iron
- Interconnected with 7 Interstate Pipe Lines, 38 delivery points
- High Pressure (600 psi) Transmission Loop
- 13 Operating Areas
- ~ \$1.35 Billion Plant in Service



*based on annual throughput

**excludes intradepartmental transfers

Customer Class	Customers	% of Total	Sales & Transportation Volumes (Dth)	% of Total
Residential	764,426	91.84%	62,599,943	16.73%
Commercial	64,854	7.79%	28,377,054	7.58%
Industrial	3,094	0.37%	283,173,032	75.68%
TOTAL	832,374		374,150,029 **	

Gas Lines for Economic Development

- **Basic Quandry**
 - Gas service extensions are time consuming and expensive
 - Time, materials, labor
 - Land acquisition
 - System planning
 - Economic Development projects come together quickly and may or may not be precise
 - May not have included utility in planning process
 - May not include specific load projections
 - May anticipate future tenants/residents
- **Problem**
 - How to incent development without stranded infrastructure investment?
 - What happens if the load never shows up?
 - Who shoulders the risk?
- **Traditional Regulatory Solution**
 - Compare Costs to Benefits
- **Caveat to Discussion**

(There is ALWAYS a caveat. . .)



Gas Line Extensions in Indiana – Part 1

Basic Rule - 170 IAC 5-1-27(B)(1976)

(B) Responsibility of Gas Utilities. In addition to its statutory responsibilities, each gas public utility shall, upon proper application for service, have the authority and obligation subject to the provisions below and in keeping with the filings approved by the Commission as to the availability of gas service, ***to make free of charge an extension necessary to give service when the estimated total revenue, for a period of three (3) years, from the prospective customer or customers, is at least equal to the estimated cost of such extension.***

Emphasis added.



Gas Line Extensions in Indiana – Part 2a

Tariff Solution – Adjust the Cost-Benefit Analysis

NIPSCO General Rules and Regulations (First Approved 2010)

6.1 Extension of Services Beyond Standard Installations

Upon request by a Residential Customer or Non-Residential Customer for service, the Company will provide necessary facilities for rendering a standard installation under Rule 3.1 at no charge.

6.1.1 The following definitions shall be applicable to this Rule:

6.1.1.1 “Margin Credits” for Residential Customers shall be equal to \$1,800 for each residential meter. ***“Margin Credits” for Non-Residential Customers shall be equal to the Present Value of Gross Margin associated with each Non-Residential meter as estimated by the Company for a six (6) year period.***

6.1.1.2 “Margin Costs” shall be equal to 0.52 multiplied by the total amount of actual costs for the extension of gas facilities, as estimated by the Company using the information provided to the Commission in the Company’s annual filings pursuant to 170 IAC 5-1-27(D).

6.1.1.3 The values identified in 6.1.1.1 and 6.1.1.2 shall be subject to change in any proceeding proposing adjustment to NIPSCO’s basic rates and charges or in a separate proceeding filed in conformance with the IURC Rules.

6.1.2 For extension of lines and services beyond standard installations for Residential Customers, a contribution must be provided when the Margin Costs exceed the Margin Credits.

Gas Line Extensions in Indiana – Part 2b

Tariff Solution – Contract with Customer(s)

- **Guaranteed Minimum Contract**
 - Customer Pays Cost to Extend Up Front as Contribution
 - Refunded to Customer as Revenues Are Received
 - Over Term of Contract

* * *

if in the opinion of Company (i) the estimated cost of such extension and the prospective margin to be received is so meager or speculative as to make it doubtful whether the Margin Credits from the extension would ever pay a fair return on the investment involved in such extension, or (ii) there will be slight or no immediate demand for service, or (iii) the installation will require extensive equipment with slight or no immediate demand for service, or (iv) the estimated cost of the extension otherwise places Company and/or other Customers at risk of recovering the costs associated with the investment;

* * *

Gas Line Extensions in Indiana – Part 3

Legislative Solution

Transmission, Distribution, and Storage System Improvement Charges and Deferrals, Ind. Code Ch. 8-1-39 (2013)

- Infrastructure Investment Tracker
- Added Statutory Provisions permitting utility to track 80% of approved cost for eligible projects incorporated into an approved 7-Year Plan
- Remaining 20% of costs deferred for recovery in next general rate case
- Includes provision to accommodate economic development:

Sec. 11. (a) The extension, construction, addition, or improvement of the plant and equipment of a public utility that is installed to provide gas service to a targeted economic development project **is *used and useful in the public service.***

Ind. Code § 8-1-39-11 (a), *emphasis added*.

- Targeted economic development project must first be approved by the Indiana Economic Development Corporation

Gas Line Extensions in Indiana – Part 3

Legislative Solution (cont.)

Transmission, Distribution, and Storage System Improvement Charges and Deferrals, Ind. Code Ch. 8-1-39 (2013)

- Changes the Cost-Benefit test for rural extensions and targeted economic development projects:

(c) Notwithstanding any law or rule governing extension of service, a public utility that provides gas service may, on a nondiscriminatory basis, extend service in ***rural areas without a deposit or other adequate assurance of performance from the customer, to the extent that the extension of service results in a positive contribution to the utility's overall cost of service over a twenty (20) year period. However, if the public utility determines that the extension of service to a targeted economic development project will not result in a positive contribution to the utility's overall cost of service over a twenty (20) year period, the public utility may require a deposit or other adequate assurance of performance*** from:

- (1) the developer of the targeted economic development project;

or

- (2) a local, regional, or state economic development organization.

Ind. Code § 8-1-39-11(c) *emphasis added*.

Gas Line Extensions in Indiana – Part 3

Legislative Solution (cont.)

Transmission, Distribution, and Storage System Improvement Charges and Deferrals, Ind. Code Ch. 8-1-39 (2013)

- Example Projects
 - Since 2016, NIPSCO has installed 164 miles of pipe into rural areas and installed more than 9,000 new services
 - Another Indiana LDC has sought and obtained approval for several targeted economic development projects including:
 - A UPS Hub
 - A manufacturing facility
 - A Project involving a not-for-profit entity

Each has been reviewed and approved by the IEDC prior to being proposed to the IURC for approval.

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Questions?

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